

By the turn of the century, U.S. exports of wood products are projected to be at least \$9.0 billion, up nearly 30 percent from the 1994 level of \$7.0 billion (Figure 1). Environmental concerns about dwindling tropical hardwood forests, coupled with export bans/restrictions on logs and rough lumber in tropical hardwood exporting countries, will increase demand for U.S. hardwoods and softwoods. The Philippines, Indonesia, Cote d'Ivoire, and Thailand are recent examples of countries that have either banned or restricted exports and/or commercial logging.

Traditionally, the U.S. forest products industry has not considered the international market to be a viable outlet for its products. Only during the 1980's did companies begin seriously to consider foreign countries as long-term markets for wood products—partly in response to the U.S. recession in 1981-82. Although export value has nearly tripled since 1985, exports of wood products still represent a minor portion of U.S. annual wood production. The recent relaxation of trade barriers as a result of the North American Free Trade Agreement (NAFTA) and the Uruguay Round Agreement talks presents numerous opportunities for U.S. firms interested in exporting wood products. Firms servicing the export market can complement, expand, and diversify their outlets for forest products. The export market can also provide greater income, new jobs, and increased profitability for U.S. wood producers. A stronger forest products industry will lead to new investment in forest management, thus assuring a continuous supply of wood and fiber for the United States and its customers overseas.

A genuine commitment to exporting begins with a long-term attitude towards overseas markets. To be successful, producers must be willing to create and follow a long-term foreign market strategy. Developing a long-standing working relationship with foreign importers will require maintaining commitments to them even when their markets are weak. This approach allows the firm to build the relationships with customers necessary for success in exporting. An "in and out" approach to exporting will greatly increase a company's chances of failure in the overseas market and give U.S. producers a reputation for unreliability.

Before entering the export market, a firm must consider its short and long-term corporate objectives, the resources available, the level of international business expertise required, and the commitment the firm must make to service the export market. The decision to enter the export market should not be taken lightly. Producers must have the flexibility and willingness to tailor a product line to meet specifications quite different from those used in the United States.

This revision of the 1990 handbook is intended to help interested U.S. wood products producers begin the process of examining and preparing for export markets by providing them with a brief overview of the necessary steps in developing a successful export marketing strategy. It details how to obtain accurate and up-to-date export market information so that the production, scheduling, and shipping of U.S. wood products can be done profitably. The flowchart on page 3 provides an outline of the major activities associated with

exporting and export marketing. The outline includes many of the topics covered in this guide.

Major topics include: trade servicing, supply considerations, sources for information on major U.S. exports and wood product markets, United States Department of Agriculture (USDA) export programs, export financing, shipping and documentation, product pricing, and the business organization of an export-oriented company.

Table 1- Major activities associated with exporting

STEP I. Management commitment

STEP II. Analyze objectives, strengths, and weaknesses

1. Short and long term-goals
2. Personnel
3. Resources
4. Production
5. Financing
6. Knowledge of export marketing

STEP III. Develop contacts and collect current market information in the United States.

1. U.S. Government and State agencies
2. Banks with international departments
3. Freight forwarders
4. Marine insurance agents
5. U.S. port authorities

STEP IV. Conduct market analysis

1. U.S. export statistics
2. Foreign import statistics
3. Current market developments and trends
4. Import barriers
5. Other factors (political, economic, geographic, and cultural)

STEP V. Country/market selection

1. Demand potential/trends

2. Product identification
3. Standards and specifications and trends
4. Language requirements
5. Distribution channels
6. Business practices
7. Tariff and nontariff barriers
8. Licensing/phytosanitary
9. Legal considerations
10. Shipping costs

STEP VI. Develop marketing approach targeted to one or two countries

1. Organization of the firm
2. Determine production
3. Contact foreign importers
4. Schedule marketing/sales trip to the country or market

STEP VII. Trade servicing

1. Product development/ modification in response to changes in demand
2. Attention to importer's needs/commitment to the market
3. Periodic visits to the market to maintain good customer relations and develop new contacts
4. Refine marketing approach

Exporting Wood Products: Advantages, and Risks

The decision to enter the export market requires the producer to commit sufficient managerial, economic, and financial resources to the task. Each company must weigh the advantages and disadvantages of exporting to determine if projected profits, possible losses, and inherent risks justify management's commitment to exporting.

The advantages of exporting wood products include: new marketing and financial opportunities (which allow the firm to grow financially and corporately), diversification of risk, and increased financial leverage and credit. In addition, revenue derived from export sales permits spreading fixed costs over a greater number of production units. Wider margins may therefore be realized on higher-valued products.

Producing for foreign markets can also have its downside. Tailoring wood products to foreign standards and specifications requires skilled personnel for production and shipping operations. Also, manufacturing goods to foreign specifications may not be possible with existing high-speed, high-volume manufacturing practices, requiring a change in the production process. Therefore, production costs per unit may be higher if new machinery and personnel are required. If wood products designed and produced to foreign specifications need to be sold on the domestic U.S. market, they may require additional processing such as resawing, planing, or sanding.

Common mistakes made by companies entering the export market are:

- ☐ Failing to obtain qualified export counseling (inability to understand market demand).
- ☐ Failing to develop an international marketing plan (inability to focus on best way to serve new markets).
- ☐ Insufficient commitment by top management to overcome the initial difficulties and financial requirements of exporting.
- ☐ Insufficient care in selecting overseas agents or distributors.
- ☐ Filling orders from around the world (the shotgun approach) instead of establishing a basis for profitable operations and orderly growth by actively seeking customers in targeted areas.
- ☐ Neglecting the export business when the U.S. market booms.
- ☐ Failing to treat international customers on an equal basis with domestic counterparts.
- ☐ Failing to understand or respect foreign cultural differences with respect to business practices and product usage.
- ☐ Unwillingness to modify products to meet the regulations or cultural preferences of other countries.
- ☐ Failing to print service, sales, and warranty messages in locally understood languages.
- ☐ Failing to consider the use of an export management company or other marketing intermediary knowledgeable in foreign distribution channels.
- ☐ Failing to consider licensing or joint-venture agreements.

Success or failure in exporting hinges on an exporter's willingness to allocate sufficient resources to research foreign demand, develop contacts, and produce, market, ship, and sell wood products overseas. These activities are referred to as trade servicing.

Trade Servicing: The Key to Success

If employed conscientiously, trade servicing helps overcome many of the disadvantages and pitfalls in export marketing and helps lessen the effect of economic forces and other factors that an exporter cannot control. There is no substitute for a good working relationship with the overseas buyer. This is particularly important given the traditional U.S. wood exporter's reputation overseas as an "in-and-out" supplier of the export market. The most effective producers are those which have stayed in the export market in good times as well as bad. Being reliable sometimes means sacrificing short-term gains for long-term market development opportunities.

Supply Considerations

Deciding what to sell overseas

Deciding what can be sold overseas depends on a host of variables. Items to be considered include: what is being produced now, access to timber resources with respect to species, quality, and quantity, access to processing facilities, transportation, proximity to ports, and how adaptable current operations are to cutting special orders or scheduling the mill to cut or produce for export markets. Success in the export market may involve adapting production facilities to produce to foreign grades and specifications.

Deciding where to sell overseas

It is imperative that firms interested in exporting take time to research the markets where they're interested in selling their products. By building a knowledge base about different countries, the new exporter will be able to pinpoint those countries that are most suited to the products they produce. Once a slate of target countries has been chosen, become knowledgeable about those countries and develop a consistent pattern of trade contacts with importers in those countries. Nurturing a commitment to marketing in one or two countries before branching out can help pinpoint a firm's strengths, weaknesses, and limitations in serving export markets. Once the new exporting firm's expertise develops they

may feel confident in testing new markets and products, and in diversifying their export market portfolio.

Pricing products

for export

Table 2 on page 7 outlines the elements of a price quote for each stage through which products move as they pass from the mill to the port of destination overseas. The quote basis used, such as free-on-board (f.o.b.) vessel or cost, insurance, and freight (c.i.f.) named port overseas, will depend on the arrangement negotiated with the importer. A price quote that more closely reflects the cost of goods delivered to the importer's yard has a much better chance of being negotiated and accepted than a quote based on delivery to the U.S. port prior to export. Quotes should include information on shipping arrangements and dates, payment terms, and total weights and/or volume (in metric). The actual price quote will include these elements but will be influenced by foreign import demand, freight rates, insurance costs, domestic supplies, and proximity to exporting facilities and ports.

Quotes based solely on domestic U.S. prices plus additional transportation, handling, and insurance costs may or may not be acceptable in international trade. This depends on the negotiations between the U.S. exporter and the foreign buyer. Current

benchmark or average prices for specific species and grades of forest products in international trade may be obtained from the publications and newsletters outlined in this handbook.

In the United States, forest products are bought and sold according to weight and/or volume designations such as 1,000 board feet, 1,000 square feet, or 1,000 linear feet. In foreign countries, common volume units in the wood trade are 1,000 cubic meters, 1,000 square meters, and metric tons.

The exporter must be familiar with converting U.S. volume measurements to the metric system. Forest products volume conversion ratios and methods are shown in appendix IX. Shipping weights and volumes for a number of products and species are shown in appendix X.